AR06

Black Gold Oil & Gas Ltd.

1985 Annual Report

CORPORATE PROFILE

Black Gold Oil & Gas Ltd. is an independent Canadian resource company with a Canadian Ownership Rating (COR) of 100 percent. The Company's primary interests are in oil and gas exploration and production, and mining exploration. During 1985 the Company's operational emphasis was directed primarily towards developing its oil and gas interests and secondarily its mineral properties. Black Gold experienced a significant turnaround evident in the dramatic increases in production and oil and gas revenue.

Black Gold is a public company with its common shares listed on the Alberta Stock Exchange. The Company is registered in Alberta and Saskatchewan, with its head offices in Calgary, Alberta.

NOTICE OF ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at the Calgary Petroleum Club, Cardium Room, Calgary, Alberta, on September 30th, 1985 at 10:00 a.m. (Calgary time).

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ABBREVIATIONS

Units	Abbreviation
Barrels of oil	BBL
Barrels of oil per day	BOPD
Thousands of barrels of oil	MBBL
Thousands of stock tank barrels of oil	MSTB
Thousands of cubic feet	MCF
Millions of cubic feet	MMCF
Billions of cubic feet	BCF
Pounds per square inch	PSI
Thousands of cubic feet per day	MCFD
Before payout	BPO
After payout	APO

FINANCIAL HIGHLIGHTS

Year Ended March 31

	1985	1984
Production revenues	**$2,043,728**	$1,738,541
Cash flow from operations	**443,382**	576,019
per share	**$0.13**	$0.18
Net income (loss) after extraordinary item	**(108,511)**	263,758
per share	**$0.03**	$0.08
Shareholders' equity	**2,022,584**	2,170,820
Working capital (deficiency)	**(50,645)**	(76,017)
Long-term debt	**$3,503,715**	$3,243,465
Weighted average outstanding shares	**3,313,584**	3,204,184

CORPORATE INFORMATION

Corporate Office

1900, 520 - 5 Avenue S.W.
Calgary, Alberta
T2P 3R6
Telephone: (403) 262-2475

Directors

Larry B. Nugent
Calgary, Alberta

Michael B. Nugent
Calgary, Alberta

Victor R. Loewen
Calgary, Alberta

David M. Vipond
Calgary, Alberta

Brian E. Roberts
Calgary, Alberta

Officers

Larry B. Nugent
President and Chief Executive Officer

Michael B. Nugent
Vice-President

Victor R. Loewen
Secretary-Treasurer

Lawyers

Howard, Mackie
Calgary, Alberta

Auditors

Touche Ross & Co.
Calgary, Alberta

Bankers

The Royal Bank of Canada
Calgary, Alberta

Transfer Agent and Registrar

Guaranty Trust Company of Canada
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: BGR

REPORT TO SHAREHOLDERS

Black Gold Oil & Gas Ltd. is pleased to present its annual report for the fiscal year 1985. It was an active and productive year with the Company being involved in a number of new projects, both nationally and internationally, that resulted in the Company further exploring and developing its existing assets. Of particular note are the number of new and exciting projects that commenced and are being developed outside of Canada.

For the past year the Company has continued to follow its successful operating philosophy of using cash flow from operations to modernize and upgrade its producing wells and facilities, as well as acquiring interests in new ventures at the ground floor level for third party exploration.

Revenues from oil sales and other income rose 18 percent to $2,043,728 over the previous fiscal year. Cash flow from operations totaled $443,382 or 13.4¢ per share versus $576,019 or 17.9¢ per share last year. There was a net loss of $108,511 or 3.3¢ per share compared to net earnings of $263,758 or 8.2¢ per share for fiscal 1984. Earnings loss was attributed to a loss on sale of equipment and a write-down of property, plant and equipment totalling $174,957. Net income from operations amounted to $55,446.

The working capital deficiency decreased by $25,372 from fiscal 1984 to $50,645 in this reporting period. Total shareholders' equity remained at slightly more than two million dollars. The weighted average number of shares outstanding was 3,313,584.

Oil production rose approximately 11 percent from 55,290 BBL or 151 BOPD to 61,250 or 168 BOPD. The Company had no natural gas revenues as gas produced in conjunction with oil was used as fuel for the production facilities. Capital expenditures on the acquisition of property, plant and equipment totaled $713,035. During the period under review, the Company participated in three wells in which it retained a net interest of 66 percent, all of which were successful oil wells.

As of April 1, 1985, the Company land holdings included 8,564 developed gross acres (5,484 net) and 2,539,960 gross undeveloped acres (314,084 net). Black Gold also has a two percent gross overriding royalty interest on 320 acres in the Alliance field in Alberta, a currently producing oil field.

An independent engineering study, effective April 1, 1985, estimated that the Company had proven 781 MSTB of oil and 1,166 MMCF of natural gas. Probable additional reserves were estimated to be 1,061 MSTB of oil and 953 MMCF of natural gas. Total proven and probable reserves were appraised at 1,841 MSTB of oil and 2,119 MMCF of natural gas.

Estimated present worth of Black Gold's petroleum reserves, net to appraised interests and including government rebates, totals $95,659,500 undiscounted and $22,867,800 discounted at 15 percent. Additionally the Company has interests in two shut-in properties at Innisfail and Tony Creek, Alberta estimated internally to have 1,400 MMCF of net probable gas reserves.

The Company continues in its efforts to develop its mineral properties. An on-site exploration program of general geophysical and geological work on Black Gold's 2,040 gross acre interests in Hemlo, Ontario was completed by a major mining company at no cost to Black Gold. The results are now being evaluated. The Company will attempt to interest other mining companies to develop work programs to explore its other mineral holdings at Val d'Or, Quebec, Manitou Lakes, Ontario and Crystal Creek in British Columbia.

A revised waterflood proposal is again before the Energy Resources Conservation Board in order to enhance the Company's production from the eleven-producing Lloydminster formation oil wells at Chauvin South, Alberta. Electric power facilities have now been installed for the entire property to increase power reliability and reduce operating costs. Daily oil production could rise from the current 140 BOPD to approximately 350 BOPD net after royalties by 1988. Five Sparky oil wells will be connected in the near future and there remains 400 net acres adjacent to present oil production available for future exploration and development.

Black Gold's 88 percent share of production after royalty is currently averaging 30 BOPD from the Basal Blairmore formation at Alsask in Alberta and Saskatchewan.

Construction of an upgraded road and the solving of a water disposal problem were important factors in the creation of a farmout agreement to drill a Slave Point test well on the Company's 100 percent interest at East Sousa, Alberta. The well is to be drilled in the coming drilling season and Black Gold will retain a 50 percent interest on this acreage which offsets established production.

The Company has a 12.25 percent working interest after payout in a successful Keg River Reef oil well recently drilled at Rainbow, Alberta and scheduled to be on production this fall. At Low Lake, Saskatchewan, values have not yet been assigned to the Company's seven Waseca oil wells which are currently producing 70 BOPD. This production is much improved following the installation of new equipment and electrification of the field.

Two new projects about which the Company is very excited, concern interests Black Gold has acquired in Thailand and the Philippines. Two oil concessions in Thailand, Surat Thani and Mae Hongson, total over two and a half million gross acres and the Company has a 13 and 10 percent net interest respectively in them. A geophysical and geological program is now being developed which will see one well drilled on each concession in the next three years. A major oil company paid a $3 million signing bonus to acquire a concession adjacent to the Surat Thani concession and the Mae Hongson concession lies between two areas of established oil production.

On the Island of Bohol in the Philippines, a four-hole diamond drilling and sampling program has produced gold assay results up to 7.74 ounces per ton. The Company has a 10 percent interest in 1,420 gross acres which have been primitively mined for years. Following evaluation of the initial findings, a second more extensive 10-hole drilling program will soon be underway.

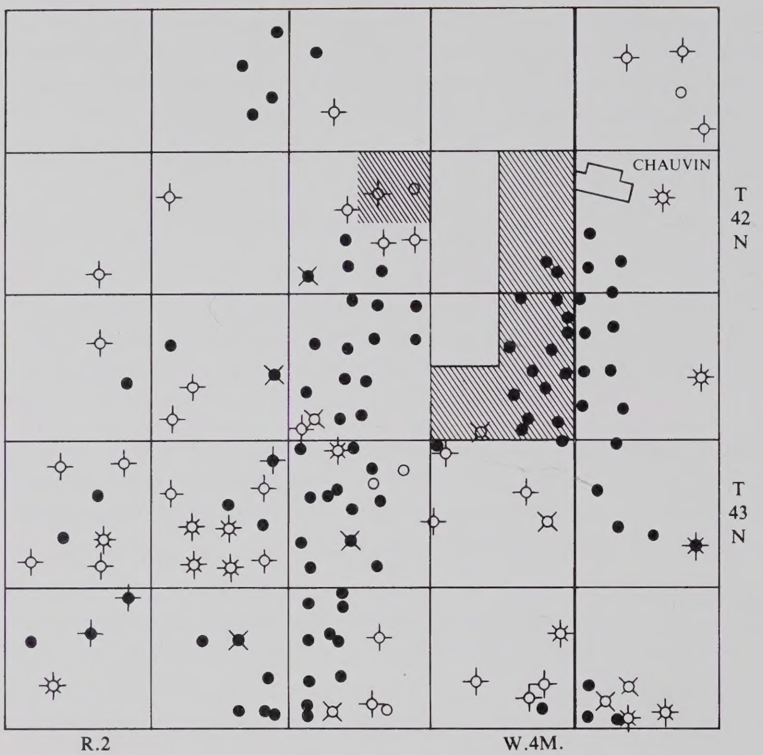
In this year which saw improved results in conventional oil and gas exploration and development and the involvement of the Company in exciting overseas gold and oil and gas plays, the Board of Directors wishes to thank management and staff for their untiring efforts on behalf of the Shareholders.

L. B. Nugent

Larry B. Nugent
President

Calgary, Alberta

August 31, 1985



LEGEND

- ○ LOCATION/DRILLING
- • OIL/POTENTIAL OIL
- ☼ GAS/POTENTIAL GAS
- ✧ DRY & ABANDONED
- ¤ SHUT-IN/SUSPENDED
- ¤ INJECTION/DISPOSAL
- ✱ ABANDONED GAS WELL

CHAUVIN SOUTH AREA

ALBERTA

COMPANY LAND

Chauvin South, Alberta

Eleven producing Lloydminster oil wells in the Chauvin South area of Alberta, are connected to a central battery facility, which itself is connected to a pipeline to reduce transportation costs. The remaining five wells, four of which are Sparky oil wells, will be connected sometime in the future.

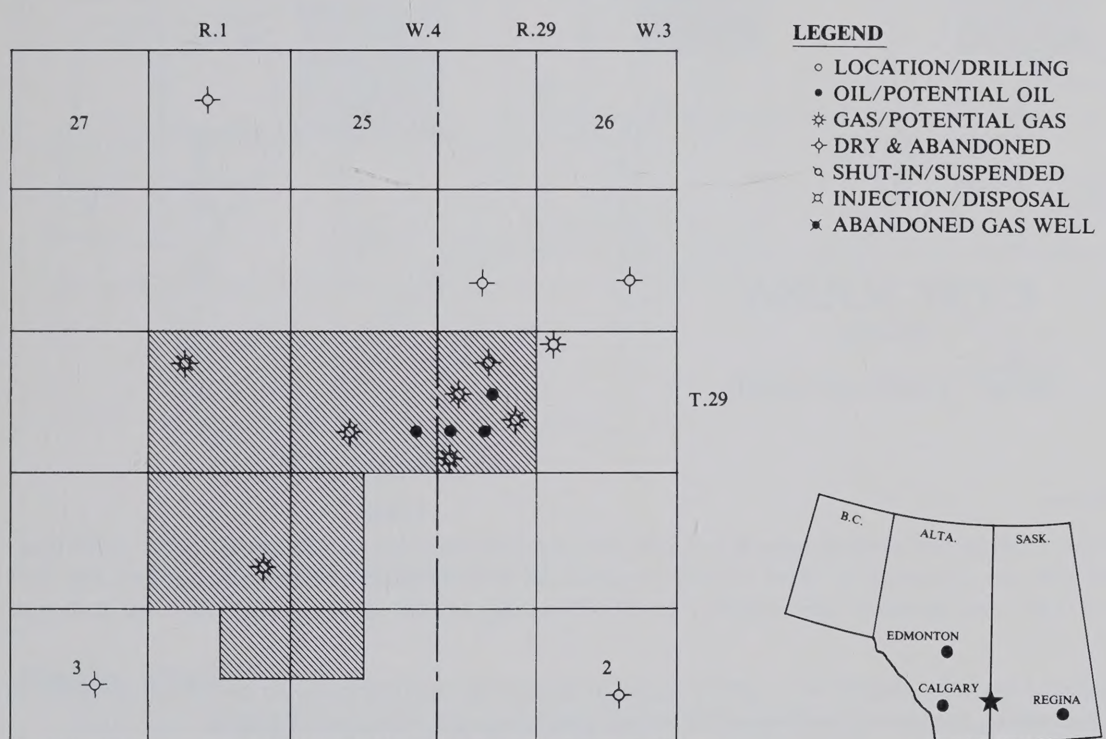
The Company has also completed the installation of electric power facilities for the entire property, which will increase power reliability and reduce operating costs.

The Company's share of production from this field after royalty, has averaged approximately 140 BOPD. The Company's working interest is 100 percent in these wells.

Black Gold plans to increase future production and to expand reserves by more intensive drilling through the use of 20-acre spacing units approved by the Energy Resources Conservation Board, which could result in an additional six wells.

There is also good potential for enhanced production by secondary recovery using a water-flood pressure maintenance scheme for the Lloydminster formation. An application to this effect was made to the ERCB and during the Board hearing, there was an objection registered by an offsetting interest holder. Black Gold has now negotiated with this Company to change the configuration of the waterflood plan and the application has been resubmitted. After approval is received, it is anticipated that the program can commence this fall with a possible increase in daily oil production to approximately 350 barrels net after royalties by 1988.

Independent engineering evaluation has estimated as at April 1, 1985, 1,539 thousand stock tank barrels of oil reserves in place, of which 641 MSTB are proved producing and undeveloped. Log evaluation of all 16 wells has indicated the existence of probable natural gas reserves in a shallower formation of approximately 1.5 BCF net to Black Gold, determined by internal evaluation. There are gas fields to the east and west of the Company's property producing gas from this formation. Additionally, the Company still has 400 net acres adjoining the present oil production which are available for future exploration and development.



ALSASK

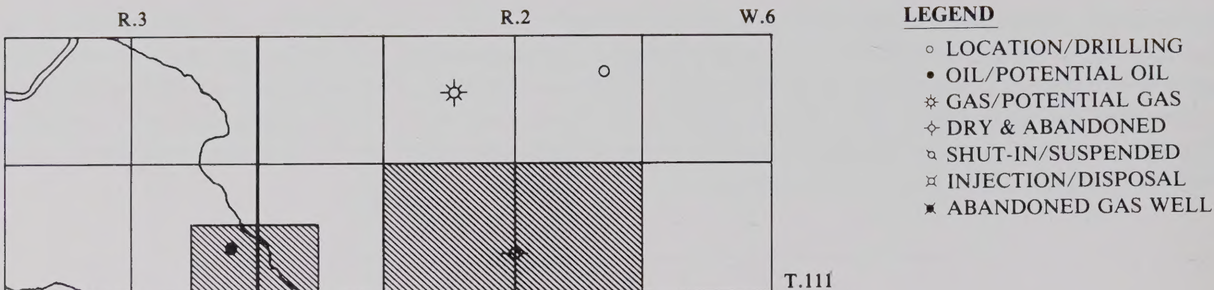
ALBERTA - SASKATCHEWAN BORDER

COMPANY LAND

Alsask, Alberta and Saskatchewan

Black Gold has working interests varying from 33.3 to 88 percent in 3,004 gross acres (1,316 net acres) in the Alsask area of Alberta and Saskatchewan. There are four wells capable of oil production from the Basal Blairmore formation and net proved producing reserves in this property are estimated in the MTA report at 72.5 MSTB. Black Gold's 88 percent share of production after royalty is currently averaging approximately 30 BOPD from the Basal Blairmore horizon.

This property also has three wells which have tested gas in the Viking formation and the seven other wells on the property have indicated the presence of gas in the Viking zone on the well logs. In the MTA report net proved undeveloped gas reserves are estimated to be 1165.9 MMCF and net probable additional reserves are estimated to be 736.5 MMCF. The gas wells are currently shut-in because of lack of markets for the gas with the exception of production from one well used for fuel gas.



EAST SOUSA

ALBERTA

COMPANY LAND

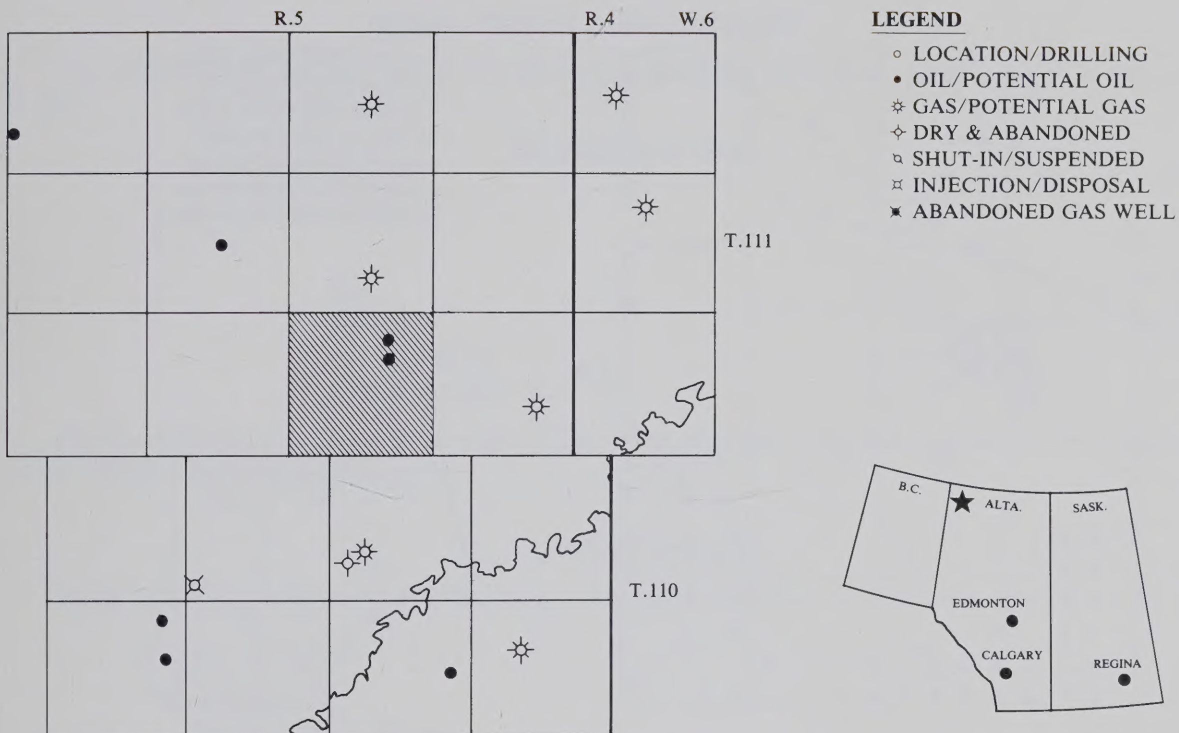
East Sousa, Alberta

Black Gold has a 100 percent working interest in 2,240 gross acres of petroleum and natural gas rights in this area. A Slave Point oil well was completed by others in 1972, produced for two months and was then suspended. The well was re-entered in 1982 and produced approximately 50 BOPD during a three month period when the well was accessible.

An upgraded road has been constructed to permit access to the well for approximately six months of the year. A water disposal problem has been solved and the well has been averaging approximately 70 BOPD.

Ten miles of seismic data were shot during the winter of 1983-84. The Company has entered into a farmout agreement to drill a Slave Point test well on the offsetting acreage for a 50 percent working interest, which if successful, would result in a major extension of the Company's Slave Point oil field. This well will be drilled during the 1985/86 drilling season.

Independent engineering studies have estimated that there are 384.9 MSTB of proved producing and probable additional oil on the Company's acreage. Black Gold feels that there is also potential for a significant Keg River Reef oil discovery.



RAINBOW

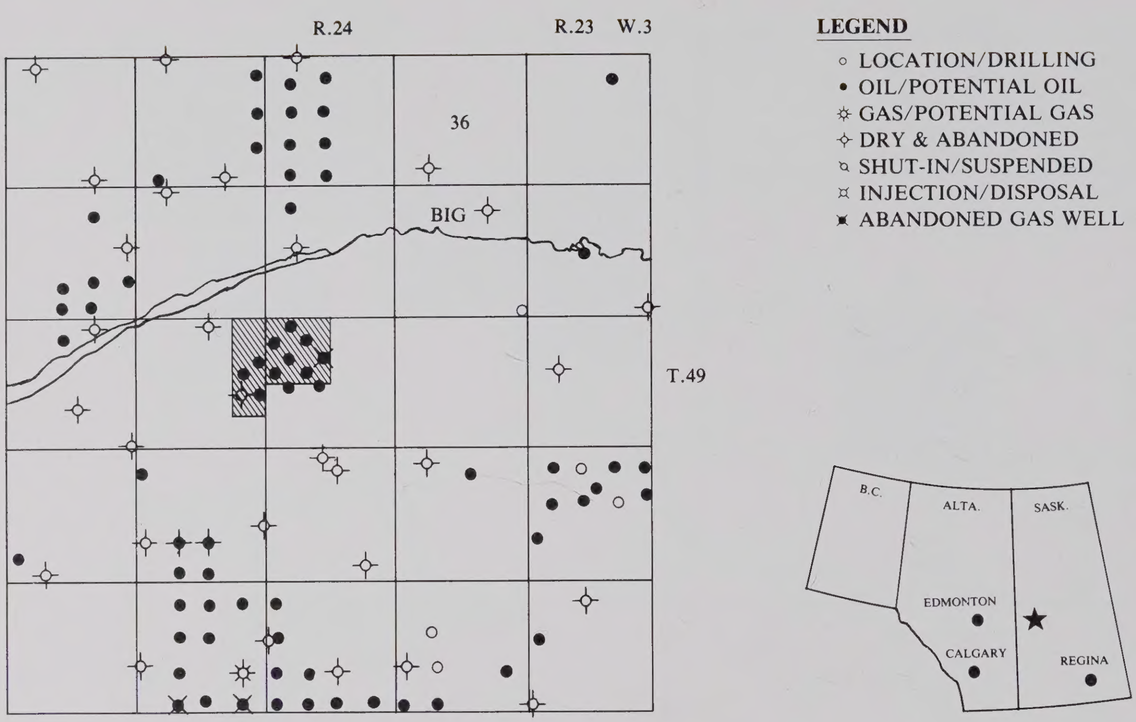
ALBERTA

COMPANY LAND

Rainbow, Alberta

Black Gold originally had a 100 percent working interest in a petroleum and natural gas lease covering 640 gross acres in the Rainbow Lake area of northwestern Alberta in which there is one shut-in Keg River Reef oil well which is subject to a net profits interest of 50 percent. In 1983, Black Gold farmed out 30 percent of its interest in the property in exchange for re-equipping and re-working the well.

The well produced 15 to 20 BOPD with large quantities of water. The well was shut-in again because of the lack of treatment facilities to deal with the water production. The Company farmed out its remaining 70 percent interests with a major oil company at no cost to Black Gold for the drilling of another Keg River Reef oil well on its acreage. The well was drilled late last winter, was shut-in and will be on production later this fall. Black Gold will have an overriding royalty position which will revert to a 12.25 percent working interest after payout. In an independent engineering study, the net probable additional oil reserves for this well were estimated to be 5.8 MSTB and the net probable additional gas reserves are estimated to be 216.4 MCF.



LOW LAKE
SASKATCHEWAN

COMPANY LAND

Low Lake, Saskatchewan

Black Gold acquired a 100 percent interest in 280 gross acres of petroleum and natural gas rights in 1980 in Low Lake, Saskatchewan. There are seven Waseca oil wells and one water disposal well on the property. Until May 1984, the oil wells were shut-in as a result of low oil prices, down-hole sand problems, cold weather operating problems in winter and high propane fuel costs. The recent activity has resulted from higher oil prices, the installation of new rotary down-hole and surface pumping equipment, the installation of improved battery and water disposal facilities, and the evaluation of the feasibility of gas production from other zones to provide fuel gas. The Company is currently evaluating additional zones, which have proven oil production on nearby lands in this area. During the summer of 1984, Black Gold drilled two additional wells and electrified the fields. This should result in stabilized production, increased efficiency and reduced operating costs.

All these recent developments have not been in effect for a sufficient period to enable the independent engineering firm to evaluate these reserves. Initial results indicate improved consistent producing rates with the field now producing 70 BOPD. Additional production will be required however, before it can be ascertained whether this is simply flush production resulting after an extended shut-in period or whether the improved production can be maintained. As a result, no value has been assigned to the area pending further production testing. The success of this program should be evident during the next year.

PRODUCTION SUMMARY

The following table sets out Black Gold's share of oil production and revenue, net of royalties, revenue taxes and credits:

Oil Production (Sales)

	Year ended March 31, 1985
BBL	61,250
BOPD	168
Revenue ($000)	$2,043
Average price per BBL	$33.40

The Company has had no natural gas sales revenue to date. The gas produced in conjunction with oil has been used as fuel for the production facilities.

LAND SUMMARY

Black Gold held the following developed and undeveloped petroleum and natural gas rights as at April 1, 1985:

	Gross Acres (1)	Net Acres (2)
Developed		
Chauvin South, Alberta	800	800
East Sousa	2,240	2,240
Rainbow, Alberta	640	336
Bittern Lake, Alberta	640	64
Tony Creek, Alberta	640	320
Innisfail, Alberta	320	128
Alsask, Alberta and Saskatchewan	3,004	1,316
Low Lake, Saskatchewan	280	280
Total Developed	**8,564**	**5,484**
Undeveloped		
Alliance, Alberta	160	160
Chauvin, Alberta	960	880
Nevis, Alberta	80	40
Stettler, Alberta	160	80
Hussar, Alberta	160	80
Joffre, Alberta	160	80
Stanmore, Alberta	1,280	64
Surat Thani, Thailand	1,967,000	255,700
Mae Hongson, Thailand	570,000	57,000
Total Undeveloped	**2,539,960**	**314,084**
Total	**2,548,524**	**319,568**

(1) Gross acres represents land in which Black Gold has a working interest or right to earn an interest.

(2) Net acres are gross acres multiplied by Black Gold's percentage interest.

Black Gold also has a two percent gross overriding royalty interest on 320 acres in the Alliance field in Alberta, a currently producing oil field. This royalty interest generated approximately $20,000 net of revenue taxes in the last fiscal year.

RESERVES SUMMARY

Black Gold's Canadian petroleum and natural gas net reserves were evaluated by MTA Engineering Ltd. of Calgary, Alberta ("MTA") effective April 1, 1985, and are summarized below. The MTA report is qualified in that a personal field inspection of producing properties was not made; however, such an inspection was not considered necessary by MTA in view of the nature of the information available on the area studied.

	Net Oil MSTB	Net Gas MMCF
Proved producing (1) (4)	749.1	—
Proved undeveloped (2)	31.6	1,165.9
Probable additional (3)	1,060.6	952.9
Total	**1,841.3**	**2,118.8**

(1) "Proved producing" reserves are those proved reserves that are actually on production or if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of the owner rather than the lack of markets or some other reason. An illustration of such a situation is where a well or zone is capable but is shut-in because its deliverability is not required to meet contract commitments.

(2) "Proved undeveloped" reserves are those proved reserves that are not currently producing either due to lack of facilities and/or markets.

(3) "Probable additional" reserves are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

(4) All proved producing reserves are presently on production.

In addition, Black Gold has interests in the following shut-in properties which have been estimated by internal evaluation to have the noted net probable gas reserves:

Innisfail, Alberta	0.4 BCF
Tony Creek, Alberta	1.0 BCF

RESERVES EVALUATION

	Net to Black Gold Interest Cash Flow in Thousands of Dollars			
		Discounted at		
	Undiscounted	12%	15%	20%
Proved producing	28,953.2	10,735.7	9,271.5	7,618.1
Proved undeveloped	9,194.8	2,264.2	1,785.1	1,280.6
Probable additional	57,511.5	15,010.7	11,811.2	8,313.5
Total	**95,659.5**	**28,010.6**	**22,867.8**	**17,212.2**

DRILLING SUMMARY

During this fiscal 1985 period Black Gold participated in the following wells:

	Year ending March 31, 1985	
	Gross	Net
Oil	3.0	2.0
Gas	—	—
Dry	—	—
Total	**3.0**	**2.0**

MINERAL OPERATIONS

Precious Metal Mineral Properties

Black Gold held the following non-producing precious metal mineral rights as at March 31, 1985:

Area	No. of Claims	Gross Acres	Net Acres
Hemlo, Ontario	51	2,040	816
Val d'Or, Quebec	48	1,920	1,920
Manitou Lake, Ontario	85	3,400	3,400
Crystal Creek, B.C.	32	15,000	1,445
Bohol, Philippines	7	1,418	142
Total	**223**	**23,778**	**7,723**

Hemlo, Ontario

In 1984, field crews from a major mining company commenced an on-site exploration program of general geophysical and geological work on Black Gold's 2,040 gross acres in Hemlo, Ontario. The Company initially owned a 100 percent working interest in over 50 claims and retains a 40 percent interest.

Ground observation and airborne survey indicate that Black Gold's properties contain metasediments and metavolcanics similar to the host rocks at the large Hemlo gold discoveries, which are seven miles west of the Company's acreage. The claims are also surrounded by other previous stakings by major mining operations made after the Hemlo discoveries.

The initial work was done at no cost to Black Gold and the Company has to pay 40 percent of future exploration and mine development costs. Upon review of the information, a $200,000 drilling exploration program was proposed. Black Gold elected not to participate and thereby reduced its working interest pursuant to a formula in the operating agreement. The results are currently under evaluation.

Val d'Or, Quebec

The Company holds a 100 percent working interest in 48 claims comprising 1,920 gross acres in the Lac Blouin area of the Val d'Or gold region in west-central Quebec. Several major gold mines in this area, including the Sullivan, the New Sullivan and the Sisco, have mineralization associated with satellite intrusives on the west side of the Bourlamaque Batholith. A gradiometer aerial survey over the area was recently accomplished by the Geological Survey of Canada. The examination of this aerial survey data appeared to indicate the possible existence of a further satellite intrusive.

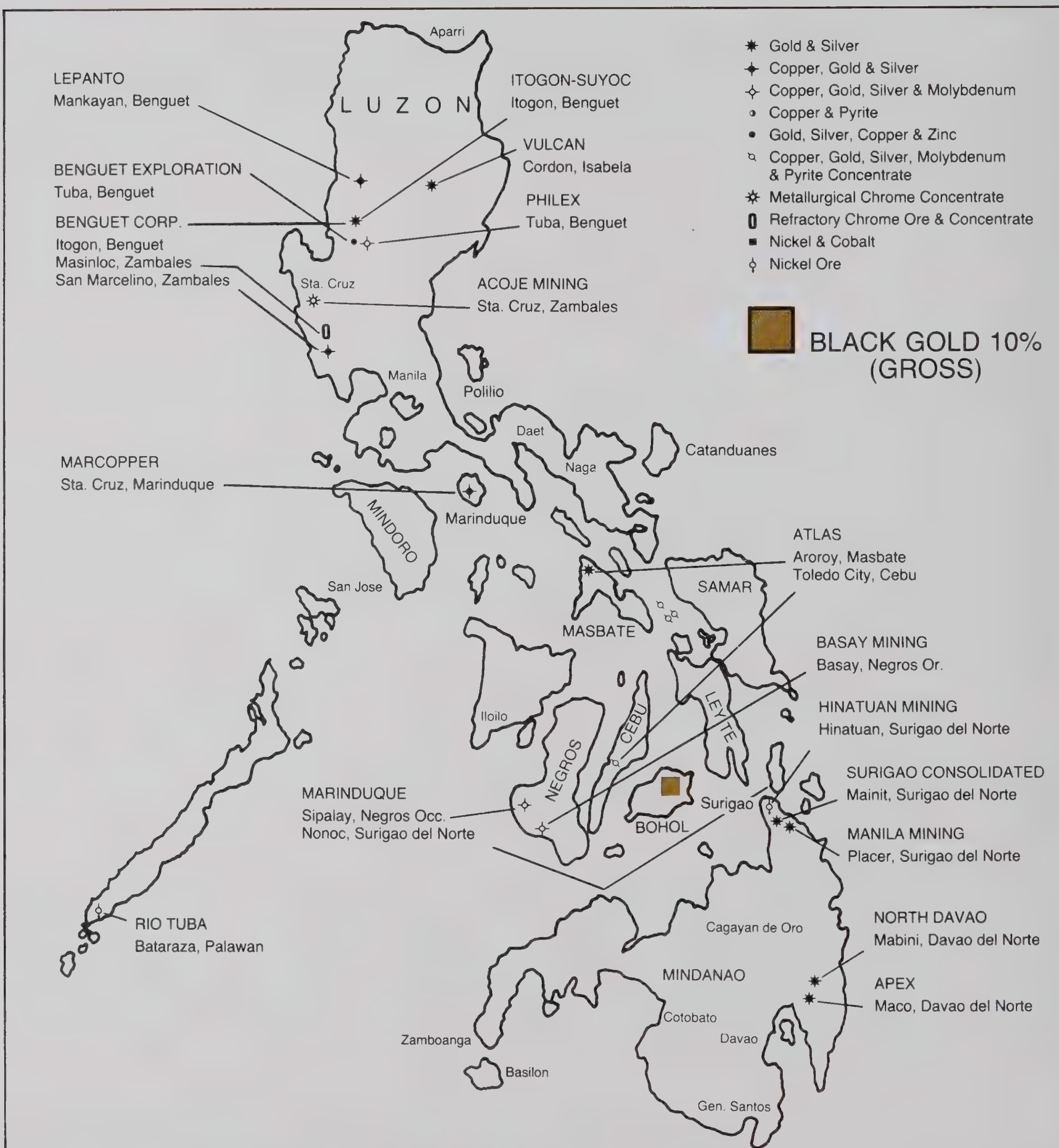
On June 1, 1982 the Company acquired the above described claims in order to take advantage of the apparent confirmation of the satellite intrusive. A small amount of exploration work conducted on the property by others prior to 1953 reported some shows of gold and sulphide mineralization. Sulphide mineralization is important as it is often associated with gold in this area. Black Gold has conducted some preliminary geophysical and geological exploration on the property and has determined several features on which further exploration work should be performed. These features could not have been located by the previous exploration methods used by others on the property in 1953 and earlier. The Company is attempting to find a mining industry partner interested in undertaking further exploration.

Manitou Lakes, Ontario

Black Gold holds a 100 percent working interest in 85 claims covering 3,400 gross acres near Calder Lake which have some sulphide mineral occurrences that were drilled approximately 20 years ago by companies looking for base metals. There was, however, no record of testing for gold or other precious metals. These claims are in a good environment which could host gold deposits in association with as yet untested sulphide showings. They are on magnetic strike with property presently being extensively drilled on adjacent claims by a major mining corporation. The Company will attempt to interest a mining industry partner in carrying out preliminary exploration work on the claims.

Crystal Creek, B.C.

The Company holds a 9.625 percent working interest in 32 claims covering 15,000 gross acres in this area, about 30 miles south-west of Golden, B.C. This is primarily a silver/lead/zinc play. The Company hopes either a high grade or a large low grade deposit can be found and that a major company can be persuaded to do further exploratory work on the property.



The Philippines, showing locations of producing metalliiferous mines and their operating companies.

Bohol Island — Philippines

The Company holds a 10 percent interest in 1,420 gross acres of gold claims on this island. Black Gold acquired this interest by participating in a preliminary four-hole exploration drilling program, which commenced after field studies indicated the presence of gold on a multitude of vein systems being actively worked by local miners using primitive extraction methods.

Random samples of this vein material taken from shafts dug to a vertical depth of 60 feet and assayed in Canada graded between 1.46 ounces per ton (oz/ton) and 7.74 oz/ton. The assay results stemming from the $60,000 initial drilling program confirmed that the Bohol property has tremendous potential for development.

Core A showed the following gold assays: from 47 - 51 metres, 1.0 oz/ton; from 63 - 65 metres, 1.5 oz/ton; and from 96 - 98 metres, 0.85 oz/ton. Core B had similar results: from 37 - 38 metres, 2.3 oz/ton; from 40 - 45 metres, 0.6 oz/ton; from 69 - 71 metres, 1.3 oz/ton; and from 75 - 79 metres, 1.2 oz/ton.

Based on these excellent results, a second stage $250,000 geophysical and geological drilling program will commence shortly.

Thailand

Black Gold has acquired working interests varying between 10 - 13 percent in two onshore oil and gas concessions in the Kingdom of Thailand. The Surat Thani acreage is a two million-acre concession situated in the southern area of Thailand. The port city of Surat Thani is located within the northern boundary of the Black Gold acreage. This concession was applied for and obtained after review of the geological and geophysical data indicated that a new basin is contained on the acreage which is entirely separate from those basins located in the Gulf of Thailand which are proven to have large reserves of natural gas and condensate. Black Gold has a 13 percent working interest in this concession.

The Surat Thani concession recently increased in value as a result of Thai Shell Exploration and Production Company's payment of a signature bonus of $3 million (U.S.) to acquire an adjacent offshore concession. Thai Shell believes the basin to be oil-prone and will drill three holes in the next three years.

A second Thailand concession called Mae Hongson is comprised of 570,000 acres and is located in northwestern Thailand along the Burma border. It lies between established oil production operated by the Thai army to the East and production operated by the Burmese army to the West. Black Gold has a 10 percent working interest in this concession.

MANAGEMENT FINANCIAL REVIEW

Revenue from oil sales and other income rose 18 percent to $2,043,728 over the previous fiscal year. Cash flow from operations declined somewhat from $576,019 or 17.9¢ per share last year to $443,382 or 13.4¢ in the current reporting period. There was a net loss of $108,511 or 3.3¢ per share versus net earnings of $263,758 or 8.2¢ per share last year, due to a disposal and a write-down totaling $174,957 of property, plant and equipment. The working capital deficiency of $50,645 was decreased by $25,372 from fiscal 1984.

Total expenses for the year were $1,988,282, of which 19 percent were non-cash items of depletion and depreciation. Operating expenses totaled $727,346 versus $412,750 as the Company assumed greater responsibility for well operation. Expenditures on property, plant and equipment were $713,035 compared to $810,239 for last fiscal year.

Shareholders' equity totaled $2,022,584. The weighted average number of shares outstanding in the reporting period was 3,313,584 versus 3,204,184 for the corresponding period last year.

Subsequent to the reporting period, the financial results for the three month fiscal period ended June 30, 1985, show that revenue from oil and gas sales, net of royalties, taxes and credits, totaled $561,438, a marginal decrease over the first three months of last year. Cash flow from operations increased to $230,222 or $0.07 per share compared to $184,823 or $0.06 per share for the same period last year. Net earnings rose 44 percent to $157,685 or $0.05 per share versus $109,564 or $0.03 per share the previous year.

Total expenses for the reporting period were $416,267, of which 23 percent or $94,122 were non-cash items of depletion and depreciation. Operating expenses fell 18 percent to $146,561 and as a result of stringent cost controls, general and administrative expenses decreased nine percent to $74,647.

The deficiency in working capital was decreased substantially by $58,991 from last year and amounted to $15,454 for the three month period under review. Over $141,631 was expended on the purchase of property, plant and equipment in the quarter. The weighted average number of shares outstanding in the reporting period was 3,313,584.

AUDITORS' REPORT

The Shareholders
Black Gold Oil & Gas Ltd.

We have examined the balance sheet of Black Gold Oil & Gas Ltd. as at March 31, 1985 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1985 and the result of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co
Chartered Accountants

Calgary, Alberta
May 29, 1985

Balance Sheet
As at March 31, 1985

Assets

	1985	1984
Current		
Cash	$ —	$ 78,663
Accounts receivable (Note 3)	267,082	254,569
Due from affiliated companies (Note 9)	14,680	52,247
Inventory of oil, at cost	104,322	24,941
Prepaid expenses and deposits	13,161	10,417
Marketable securities, at cost	55,229	—
	454,474	425,387
Property, plant and equipment (Notes 2 and 3)	5,552,709	5,465,947
Drilling deposits and other assets	24,235	24,355
	$6,031,418	$5,915,689

Liabilities

	1985	1984
Current		
Bank indebtedness	$ 26,206	$ —
Bank loans	27,000	—
Accounts payable and accrued liabilities	302,384	397,904
Long-term debt due within one year (Note 3)	149,529	103,500
	505,119	501,404
Long-term debt (Note 3)	3,503,715	3,243,465
	4,008,834	3,744,869

Shareholders' Equity

	1985	1984
Share capital (Note 4)		
Authorized		
10,000,000 common shares without nominal or par value		
Unlimited number of preferred shares		
Issued		
3,313,584 common shares (1984 — 3,313,584)	1,376,325	2,615,983
794,495 preferred shares, series 1	794,495	794,495
Contributed surplus (Note 4)	—	72,597
Deficit (Note 4)	(148,236)	(1,312,255)
	2,022,584	2,170,820
	$6,031,418	$5,915,689

Signed on behalf of the Board

Director

Director

Statement of Income and Deficit
For the Year Ended March 31, 1985

	1985	1984
Revenue		
Oil and gas sales net of royalties, revenue taxes and credits (Notes 3 and 6)	**$ 2,024,041**	$ 1,714,463
Royalties less revenue taxes	**19,687**	24,078
	2,043,728	1,738,541
Expenses		
Interest on long-term debt	**475,415**	443,711
Operating	**727,346**	412,750
General and administrative	**410,705**	399,791
Depletion and depreciation	**374,816**	281,163
	1,988,282	1,537,415
Income from operations	**55,446**	201,126
Other income (loss)		
Loss on sale of marketable securities	**(598)**	—
Equipment rental	**—**	29,750
Miscellaneous	**9,444**	27,229
Gain (loss) on disposal and write-down of property, plant and equipment	**(174,957)**	3,790
Interest	**2,154**	1,863
	(163,957)	62,632
Income (loss) before provision for income taxes and extraordinary item	**(108,511)**	263,758
Provision for deferred income taxes (Note 7)	**—**	25,871
Income (loss) before extraordinary item	**(108,511)**	237,887
Extraordinary item		
Recovery of deferred income taxes through application of previously unrecorded deferred tax benefits	**—**	25,871
Net income (loss) for the year	**(108,511)**	263,758
Deficit at beginning of year	**(1,312,255)**	(1,576,013)
Elimination of deficit against common share capital and contributed surplus (Note 4)	**1,312,255**	—
Dividends	**(39,725)**	—
Deficit at end of year	**$ (148,236)**	$(1,312,255)

Earnings per common share (Note 8)

Statement of Changes in Financial Position
For the Year Ended March 31, 1985

	1985	1984
Working capital was derived from:		
Operations		
Net income (loss) for the year	**$(108,511)**	$ 263,758
Add (deduct) items not affecting working capital		
Depletion, depreciation and amortization	**376,936**	316,051
Loss (gain) on disposal and write-down of property, plant and equipment	**174,957**	(3,790)
	443,382	576,019
Proceeds from disposal of property, plant and equipment	**76,500**	74,650
Issuance of common shares	**—**	112,975
Issuance of preferred shares	**—**	794,495
Proceeds from bank production loan, net of repayments	**400,000**	925,000
Reduction in long-term debt due within one year	**—**	360,375
Proceeds from finance contracts	**15,090**	—
	934,972	2,843,514
Working caital was applied to:		
Acquisition of property, plant and equipment	**713,035**	810,239
Reduction of advances from affiliated company	**—**	794,495
Repayment of 15% debentures	**—**	750,000
Payments on 12¾% debenture	**103,500**	138,875
Payments on finance contracts	**5,311**	—
Increase in long-term debt due within one year	**46,029**	—
Drilling deposits	**2,000**	—
Dividends	**39,725**	—
	909,600	2,493,609
Increase in working capital	**25,372**	349,905
Working capital deficiency at beginning of year	**76,017**	425,922
Working capital deficiency at end of year	**$ 50,645**	$ 76,017

Notes to the Financial Statements
For the Year Ended March 31, 1985

1. **Summary of Significant Accounting Policies**

Property, plant and equipment

(i) *Exploration and development costs — oil and gas properties*

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, production equipment, geological and geophysical expenditures, rentals on undeveloped properties and costs of drilling productive and non-productive wells. The Company does not capitalize related interest and general and administrative expenses. Proceeds on minor property sales are credited to the net book value of the property and equipment. Gains or losses on major property sales are recognized in the statement of income.

Costs capitalized are depleted and depreciated on the unit of production method based on estimated proven oil and gas reserves as determined by independent petroleum engineers.

(ii) *Exploration and development costs — mineral properties*

All direct costs related to the exploration and development of mineral properties are initially capitalized. Amortization of such costs will be provided for on a straight-line basis over estimated useful lives or by the unit of production method based on estimated recoverable reserves. If it is determined that a project will not attain commercial production, the related costs are written off.

(iii) *Depreciation*

The Company provides for depreciation of other equipment over the estimated lives of the assets on the declining balance method using rates varying from 10% - 30%.

(iv) *Government grants*

Petroleum incentive grants are recorded in the year earned and are credited against oil and gas properties.

2. **Property, Plant and Equipment**

	1985			1984
	Lower of cost and net realizable value	**Accumulated depletion and depreciation**	**Net**	**Net**
Oil and gas				
Oil and gas properties	$4,472,966	$ 745,109	$3,727,857	$3,641,127
Mineral properties	203,809	—	203,809	163,258
Production equipment	1,709,538	243,688	1,465,850	1,260,046
Oil and gas equipment	38,600	7,720	30,880	—
Other equipment	74,313	17,500	56,813	61,911
	6,499,226	1,014,017	5,485,209	5,126,342
Sand and gravel				
Land	18,000	—	18,000	18,000
Buildings	41,500	—	41,500	41,500
Sand and gravel equipment	8,000	—	8,000	280,105
	67,500	—	67,500	339,605
	$6,566,726	$1,014,017	$5,552,709	$5,465,947

All of the above assets are at cost except for the sand and gravel equipment which is stated at estimated net realizable value.

3. Long-Term Debt

The details of long-term debt are as follows:

	1985	1984
Bank production loan at the bank's prime plus ¾% with repayment terms as described below. The loan is secured by certain oil and gas properties and book debts of the Company	$3,500,000	$3,100,000
12¾% debenture repayable in varying and increasing monthly principal amounts to January, 1988. The debenture is secured by a first fixed and specific mortgage on sand and gravel properties and a first floating charge on all property, assets and undertakings of the Company	143,466	246,965
Other	9,778	—
	3,653,244	3,346,965
Less due within one year	149,529	103,500
	$3,503,715	$3,243,465

No principal repayments of the bank loan are required until the next annual loan review date. As a result, no portion of the bank production loan has been classified as a current liability.

Maturities of long-term debt in the year 1987 is $3,716 plus any repayments that may be required with respect to the bank production loan referred to above.

4. Share Capital

(a) *Common shares*

	1985	1984
Common shares without nominal or par value		
Authorized 10,000,000 shares		
Issued 3,313,584 shares	$2,615,983	$2,615,983
Contributed surplus	72,597	72,597
	2,688,580	2,688,580
Less elimination of deficit	1,312,255	—
	$1,376,325	$2,688,580

On September 21, 1984, the shareholders approved a resolution to reduce the common share capital and contributed surplus of the Company by $1,239,658 and $72,597 respectively, thereby eliminating the deficit as previously reported at March 31, 1984.

As at March 31, 1985 common shares were reserved as follows:

(i) 794,495 shares for conversion of the preferred shares
(ii) 300,000 shares under share option agreement as detailed under paragraph (c) below.

(b) *Preferred shares*

The preferred shares, series 1 are convertible according to a specified formula, which in substance would result in the preferred shareholder receiving sufficient common shares to realize approximately $794,495 if these common shares were sold immediately subsequent to conversion. As at March 31, 1985, the preferred shares were convertible into common on a share for share basis.

(c) *Share option*

In 1983, the Company approved a share option plan for a senior officer of the Company granting the officer an option to purchase from the Company 300,000 common shares at a price of $.50 per share. The option expires February 1, 1990 and to date this option has not been exercised.

5. **Contingencies**

The Company has six lawsuits and claims pending against it in the normal course of business. It is the opinion of management that final determination of these claims wil not materially affect the financial position or the results of the Company.

6. **Alberta Royalty Tax Credit**

The Company has recorded Alberta Royalty Tax Credits in the amount of $105,723 (1984 — $142,949) which has been treated as a reduction of crown royalties included in oil and gas sales.

7. **Income Taxes**

The Company has losses of approximately $640,000 which may be carried forward and applied to reduce future years taxable income. These losses are due to expire as follows:

1987	$470,000
1990	3,000
1991	167,000

In 1984 the deferred income tax provision differed from amounts that would have resulted had the reported income been subject to the Canadian federal statutory rate. The principal reasons for the differences between the actual amounts provided and that which would have resulted from application of the statutory rate were as follows:

	1984	
	Amount	**Percentage of pre-tax income**
"Computed" taxes at statutory rate	$ 121,324	46.0
Increase (decrease) in deferred income taxes resulting from:		
Non-deductibility of royalties and other payments to the Crown	107,776	40.9
Provincial allowance	(26,376)	(10.0)
Resource allowance	(138,278)	(52.5)
Other	(407)	(0.1)
Provincial credits	(67,186)	(25.5)
Provincial income taxes	29,013	11.0
	$ 25,871	9.8

8. **Earnings Per Common Share**

	1985	**1984**
Basic earnings (loss) per share		
Before extraordinary item	(3.3¢)	7.4¢
After extraordinary item	(3.3¢)	8.2¢

Earnings per common share is calculated on the weighted average number of shares outstanding during the fiscal year as follows:

	1985	**1984**
Basic	3,313,584	3,204,184

9. **Related Party Transactions**

In the ordinary course of business, the Company participated in the exploration and development of oil and gas properties with affiliated companies whereby certain costs were paid and certain revenues collected on behalf of the affiliated companies. These costs, net of amounts collected, amounted to $14,680 (1984 — $52,244).

10. **Commitments**

Lease agreement

The Company entered into an agreement for the rental of office space commencing June 1, 1983. The minimum lease rentals for the term of this agreement are as follows:

1986 —	$45,300
1987 —	45,300
1988 —	7,550
	$98,150

11. **Remuneration of Senior Officers and Directors**

As at March 31, 1985, the Company had five directors, three of whom were officers. Directors' remuneration in each of 1984 and 1985 was nil and the aggregate remuneration of senior officers was $39,000 (1984 — $36,000).

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